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MCB Focus

Economic **Update**

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CONTEXT AND CHALLENGES

The global environment

Growth performance

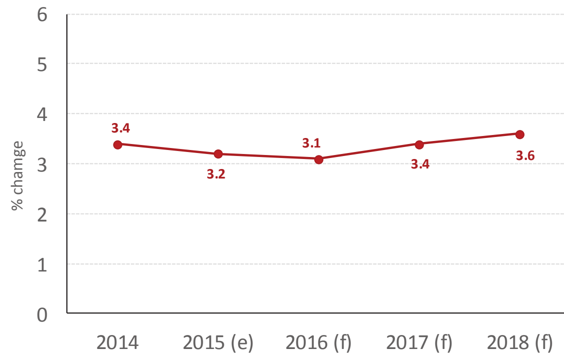
As per the IMF in its 'Global Prospects and Policy Challenges' publication released in March, *"High frequency indicators point to a pick-up in global growth. Near-term global growth is expected to pick up, reflecting a firming-up of activity in advanced economies, an anticipated shift in the macroeconomic policy mix in the United States, and stabilization in stressed emerging economies."* This view is in line with projections formulated in the January 2017 update of the Fund's World Economic Outlook. Indeed, after witnessing a lacklustre growth trajectory for several years, global growth is forecast to increase by 30 basis points to attain 3.4% in 2017 before improving further to reach 3.6% in 2018. Statistically, though prospects differ across countries, the key factor driving the strengthening global performance relates to the projected recovery in emerging market and developing economies. This would be principally engendered by policy stimulus in China, the relative rebound in economic activity in India following the demonetisation episodes, a foreseen normalisation of conditions in Brazil and Russia, and the expected firming-up in commodity prices. As regards sub-Saharan Africa, after standing at a two-decade low in 2016, growth is forecast to improve to 2.8% this year and 3.7% in 2018. Testifying to the underlying favourable foundations for growth, an enhanced outturn is obtained when excluding South Africa and Nigeria, with the region's economic expansion being estimated at 4.8% and 5.3% for 2017 and 2018 respectively. With regard to advanced economies, helped by a cyclical upturn in global trade and the expectation of a more expansionary US fiscal policy, activity is on course to generally accelerate, albeit progressively, going forward. However, our key export markets are set to depict mixed fortunes. To start with and as gauged by year-on-year real GDP growth increasing to attain 0.4% in the final quarter of 2016, the euro area has lately witnessed a gradual pick up of its activity levels, underpinned *inter alia* by low inflation, the weakening of the single currency and the ramifications of monetary policy easing. Nonetheless, growth in the euro area would remain quite restrained and roughly unchanged in the short run amidst ongoing strains, notably relating to long-standing structural weaknesses and tepid investment levels. With respect to the UK, whilst domestic demand is, so far, deemed to have held up better than expected in the wake of the Brexit vote, growth is predicted to slow down in the run up to the country's exit from the European Union, though the ensuing full-fledged implications remain to be clearly assessed. Regarding the US, the expansionary fiscal policies being advocated by the new Trump administration are, in particular, foreseen to provide a meaningful boost to the economy. Consequently, notwithstanding potential upward pressures on the greenback and envisioned further monetary policy tightening, growth in the US is expected to accelerate in 2017 and, to a lower magnitude, in 2018, although high uncertainty levels – particularly relating to trajectories to be pursued on the fiscal, regulatory and trade fronts – persist. The rising confidence that the economy is poised for more robust growth has led the US Federal Reserve to raise its benchmark interest rate by 25 basis points at its latest meeting.

Key areas warranting attention

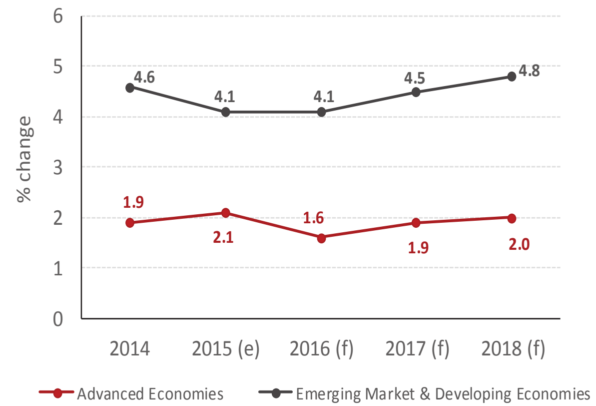
While signs of global recovery are, at first sight, encouraging for the Mauritian economy, this does not imply that we are already out of the woods. In its Global Economic Prospects of January last, the World Bank mentioned that there is substantial uncertainty around global growth projections internationally, with several dynamics and developments threatening to derail the recovery momentum. This view is shared by the IMF, which observed that the distribution of risks to the global outlook is skewed to the downside. While growth on the international scene can turn out to be better than expected, notably if envisioned policy stimulus in the US and China is greater than anticipated, negative risks to activity levels include the following: (i) a sharper-than-foreseen tightening in global financial conditions, principally linked to growing divergences in monetary policies, which could, in turn, lead to heightened market disruptions as well as capital reversals in emerging and developing countries; (ii) a tempered implementation of fiscal policies by the new US administration, with reduced positive spillovers being therefore anticipated to be felt on the international scale; (iii) a particularly severe economic slowdown in China; and (iv) increased geopolitical tensions in different parts of the world. Moreover, structural headwinds and lingering crisis legacies are foreseen to inhibit medium-term growth on the international scene, especially in advanced economies. In its Interim Economic Outlook of March 2017, the OECD emphasised that *"Confidence has improved, but consumption, investment, trade and productivity are far from strong, with growth slow by past norms and higher inequality*." When referring to global trends, it underlined that trade growth is, in the periods ahead, likely to recover, but remain below pre-crisis growth rates, mainly explained by the soft economic climate, lingering weaknesses in investment, and a stalling of the trade liberalisation momentum on the international scene. In this respect and of particular relevance to the local economy, a key threat looking ahead is that a more pronounced shift towards inward-looking trade policies and protectionism could disrupt global economic integration and exert notable stresses on our export oriented industries. In fact, there have, lately, been increasing debates across countries with regard to the tangible benefits of cross-border integration, with pleas being, in some instances, made for the adoption of protectionist measures to restrict demand for foreign goods and services. In this respect, while further clarity is called for on the nature and timing of relevant initiatives to be taken, the trade policies that the new US administration will adopt should warrant close monitoring by virtue of past announcements made in relation to the country's potential retreats from and/or renegotiation of existing trade agreements, with any acute trade barriers adopted to possibly lead to retaliatory actions by other countries worldwide. Besides, UK's complex negotiations to exit the EU will begin on 29th March 2017 when Article 50 of the Treaty of Lisbon will be formally triggered. The Brexit process will continue to capture our attention as we await for the British Government to iron out the technicalities of its exit from the European Union and forge new trade relationships globally. With respect to Mauritius, there are no clear indications as to how and when the UK will seal its future trade agreements, though it will, in all likelihood, have to focus in priority on large economies and groupings of countries. Whatever be the chosen route, the competiveness of the terms and conditions underpinning renewed trade agreements that will link Mauritius to the UK will determine the ease and cost of market access for our goods and services.

Box I: Evolution of real GDP growth on the international scale

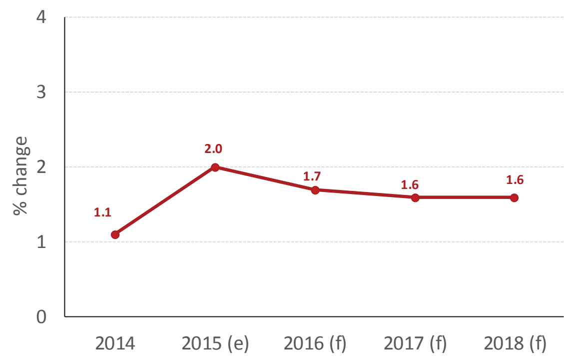
World output

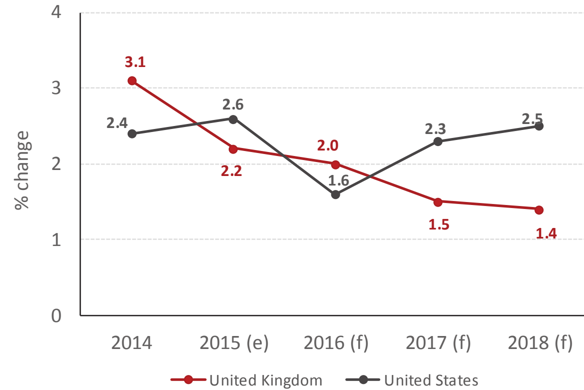


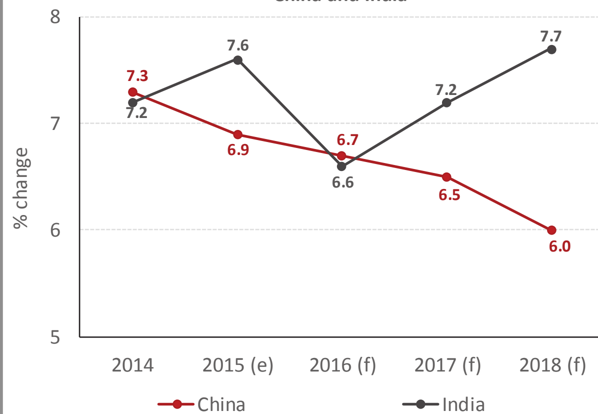
Advanced and Emerging Market & Developing economies

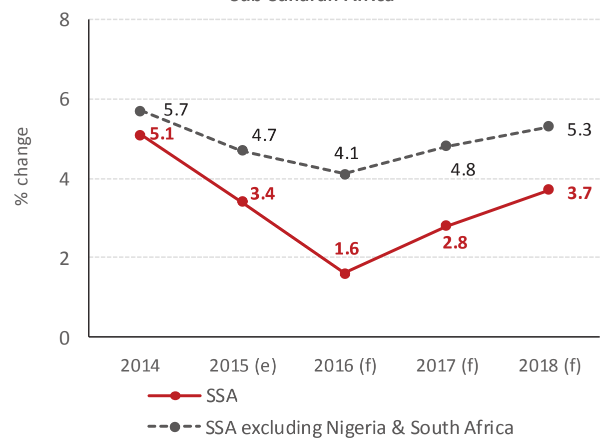


Performance across regions and countries







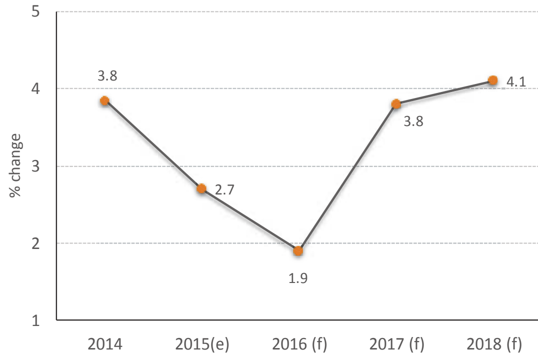


(e) estimates (f) forecasts

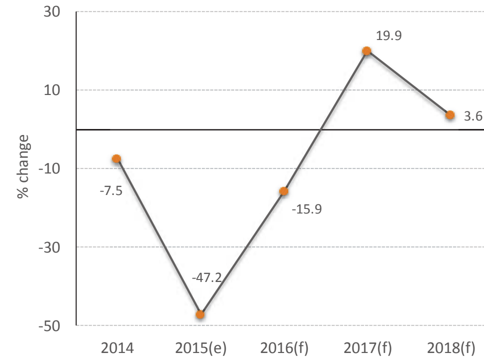
Sources: IMF World Economic Outlook (WEO Update, January 2017 & WEO Database October 2016)

Box II: Focus on the performance of 'non-growth' indicators globally

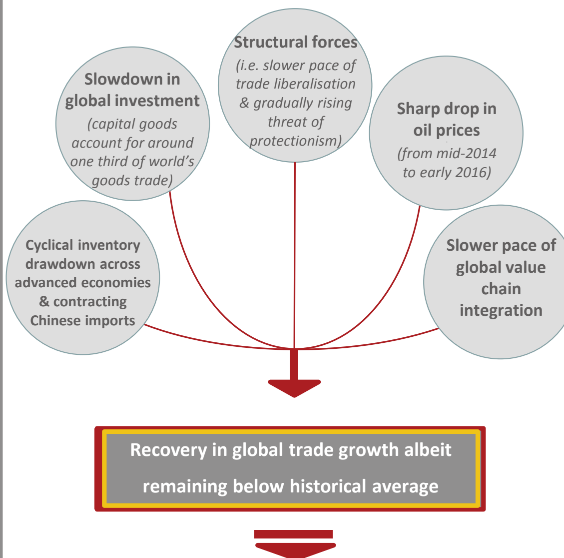
World trade volume (Goods & services)

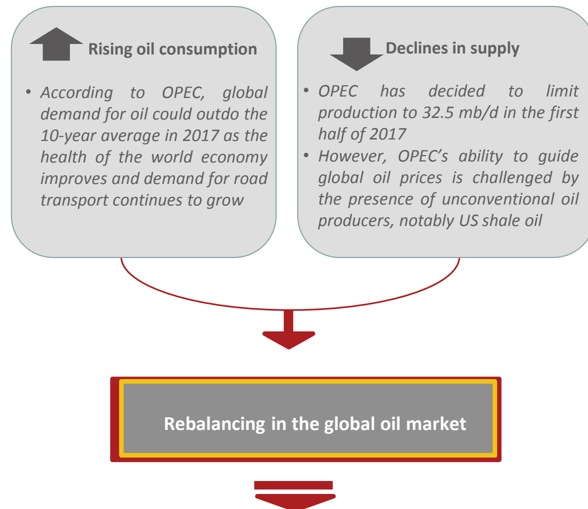


Oil prices*



** Simple average of prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil in US dollar. The average price of oil in U.S. dollars a barrel was USD 42.7 in 2016*





Recovery in global trade growth albeit remaining below historical average

Rebalancing in the global oil market

Outlook

Global trade is expected to gradually recover in 2017 and 2018, supported by an expected rebound in import demand from emerging and developing economies

However, the pace of recovery is, as per the World Bank, likely to be slower-than-previously-anticipated as a result of:

- *Downward revisions in growth prospects of major advanced economies*
- *Persistent weakness in global investment*
- *Slower trade liberalisation amid uncertainty about trade policy in US and Europe*

Outlook

Oil prices are expected to average USD 51.2/bbl in 2017 as per the IMF, which represents a 20% increase from 2016 levels.

Beyond demand and supply factors, the evolution of oil prices is likely to be impacted by:

- *Policy-induced changes in energy market fundamentals following the US elections*
- *Evolution of environmental regulation in the US*
- *Geopolitical uncertainty on the global scene*
- *Further disruptions in politically-stressed producers (Iraq, Libya, Nigeria, Venezuela)*

(e) estimates (f) forecasts

Sources: IMF World Economic Outlook, World Bank Global Economic Prospects & Commodity Markets Outlook – January 2017, IMF Primary Commodities Prices, & OPEC

Other indicators

With respect to commodity markets, crude oil prices, which stayed in a volatile zone, have, during the past few months, generally recovered from the lows registered at the start of 2016, led primarily by an agreement reached among major producers to trim supply and the rebalancing of markets. Against this backdrop, headline inflation has edged up in several advanced economies, while developments across emerging nations have been diverse, reflecting inherent domestic factors and exchange rate movements. Moving on, as the stock overhang gradually unwinds and the global recovery gains pace, oil prices are, on an annual average basis, expected to increase in 2017 and, to a relatively lower extent, in 2018, even though they are not predicted to return rapidly back to the levels witnessed before 2014. As regards the financial markets, the IMF stressed that long-term nominal and real interest rates have risen considerably since August last, particularly in the UK and the US in the wake of the November election. Such trends have been mostly driven by an anticipated shift in the latter country's policy stance, with expansionary fiscal policy forecast to trigger increased inflationary pressures and amplifying prospects of more rapid normalisation of monetary policy. In emerging market and developing economies, as gauged by higher long-term interest rates on local currency bonds, financial conditions have been generally tightened on account especially of the rise in US bond yields and the appreciation of the US dollar, with prevailing conditions instigating portfolio outflows and slowing debt issuance in some cases. On foreign exchange markets, there has been a firming up of the currencies of major advanced commodity exporters, partly attributable to the relative rise in prices of oil and other commodities. On the other hand, several emerging market currencies have lost some grounds in recent months, which can, to some extent, be associated with the sharp portfolio outflows being recorded in the aftermath of the US election.

The domestic landscape

Recent economic performance

Against the backdrop of the delicate global environment and the persistence of domestic imbalances, the Mauritian economy continued to face up to a relatively sub-optimal business climate lately. In particular, in spite of gradual progress made, the local economy has been subject to inherent structural bottlenecks, notably relating to the investor-friendliness of the business facilitation framework, the quality of public infrastructure set-up, and the efficiency of labour markets. Consequently, pressures have remained cast on the country's real, fiscal and external sectors. Conspicuously, even though specific industries – especially tourism, financial and business services and ICT – have maintained an appreciable growth in their real value added on the back essentially of their competitiveness and market diversification breakthroughs, national economic expansion has remained restrained. Indeed, when measured at market prices, real GDP growth is estimated at 3.7% in 2016, which undershoots our previous forecast by 10 basis points mainly due to the dampened evolution of

exports. While an upturn in national investment was noted, it remained below-par, with the indicator's share of GDP standing at 17.6%, i.e. largely below the target for meeting our socio-economic ambitions.

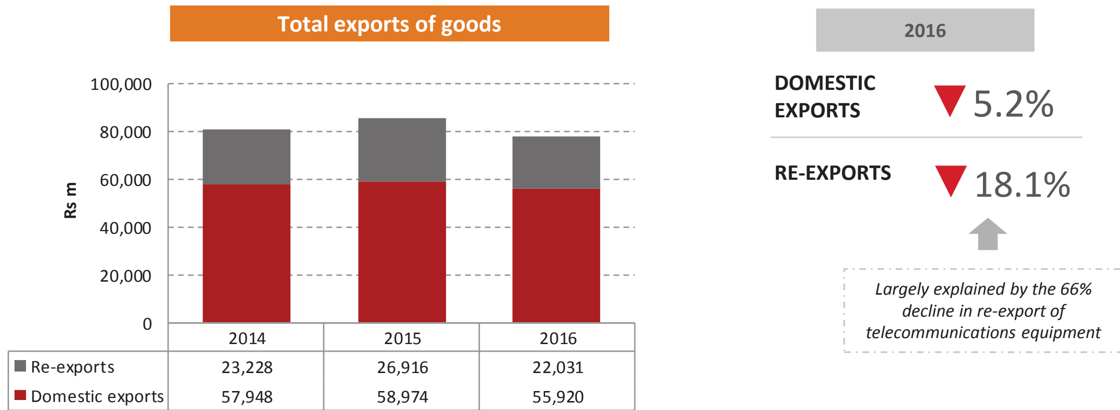
On another note, public sector debt for the purpose of debt ceiling, which slightly improved from the preceding year, stood at 55.3% of GDP as at December 2016, with a corresponding rate of 64.4% attained as per the international definition. While it is reassuring to take cognizance of the Government's commitment to consolidate public finances, such figures warrant attention in view of our economic development ambitions and the large-scale nature of upcoming infrastructure projects. On the monetary policy side, the accommodative stance pursued by the authorities remained on the agenda. In fact, after making allowance for subdued commodity prices as well as muted demand and the relative decline in telecommunication prices locally, the consumer price index evolved at a tempered pace in the recent past. Basically, in spite of being impacted by increased excise duties on cigarettes and alcohol as well as upward pressures on prices of other items, in part linked to the strength of the US dollar, headline inflation stood at 1.0% as at December 2016. It edged up to 1.2% as at February 2017 after making allowance for higher prices of vegetables and gasolene. On the external front, while the balance of payments stayed in a comfortable surplus zone, subdued trade patterns were witnessed in spite of the lower import bill, as it can be gauged by domestic exports and re-exports declining by 5% and 18% respectively in nominal terms in 2016. This caused a worsening of the already high trade deficit, whose share of national output attained 19%. While the tepid external context remained the key challenge, some export oriented operators also faced up to unfavourable currency dynamics.

Earmarked policy responses

Over time, the magnitude to which local economic challenges will be weathered will depend on the stretch, depth, timing and effectiveness of policy and reform measures to be implemented by the authorities. On the heels of the stuttering growth trajectory of recent years and as a response to the testing operating context, the local scene has, lately, been marked by the further conceptualisation and/or execution of economic restructuring measures by the authorities in their attempt to boost investment levels and create a more competitive economy. Notably, emphasis has been laid on the instigation and implementation of strategic investments across key areas, even though non-negligible delays have, in view of announced targets and timelines, subsisted in respect of the execution and unfolding of infrastructure-upgrading ventures in various fields. That said, whilst the commercial and financial viability of the venture remains to be appraised, the Metro Express Project was officially launched – though the related contracts are yet to be allocated – while the Government announced that it is investing some Rs 50 billion (representing more than 10% of GDP) in a new National Transport Network, which also includes the implementation of the Road Decongestion Programme. Also, in addition to the Business Facilitation Bill which is expected to be introduced towards April next, the authorities have expressed their intention of coming forward with a New Export Strategy that will adapt the country to the changing global trade landscape, with a Ministerial Committee set up to identify challenges faced by operators and make recommendations to boost our exports.

Box III: Zoom on the country's recent export performance

Total exports of goods



	2014	2015	2016
Re-exports	23,228	26,916	22,031
Domestic exports	57,948	58,974	55,920

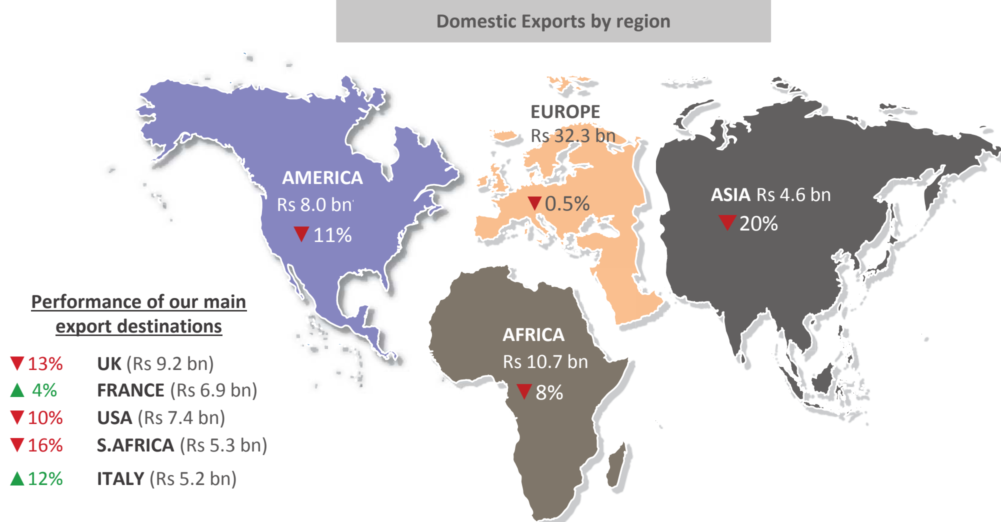
2016

DOMESTIC EXPORTS	▼ 5.2%
RE-EXPORTS	▼ 18.1%

Largely explained by the 66% decline in re-export of telecommunications equipment

Main explanations for the drop in domestic exports in 2016

Domestic Exports by region



Performance of our main export destinations

- ▼ 13% **UK** (Rs 9.2 bn)
- ▲ 4% **FRANCE** (Rs 6.9 bn)
- ▼ 10% **USA** (Rs 7.4 bn)
- ▼ 16% **S.AFRICA** (Rs 5.3 bn)
- ▲ 12% **ITALY** (Rs 5.2 bn)

Domestic Exports by product

	Distribution (%)	Change (2015 – 2016)
Articles of apparel & clothing accessories	41	↓ 8%
Fish & fish preparations	18	↑ 4%
Cane sugar	10	↑ 7%
Textile yarns, fabrics, made up articles	5	↓ 3%
Pearls, precious & semi-precious stones	5	↓ 38%
Jewellery, goldsmiths' & silversmiths' wares	2	↓ 18%

Sources: Statistics Mauritius & MCB Staff estimates

ECONOMIC OUTLOOK

Figure 1 **Main economic indicators**

	Unit	2013(1)	2014(1)	2015(1)	2016(2)	2017(2)
GDPmp	*Rs bn*	372	392	410	434	462
Per capita GDP	*USD*	9,640	10,151	9,219	9,582	10,094
GDP growth (at market prices)	*%*	3.4	3.7	3.5	3.7	4.0
GDP growth (at basic prices)	*%*	3.4	3.6	3.0	3.5	3.9
GDS	*% GDP*	11.1	10.6	10.4	11.1	11.7
GFCF	*% GDP*	20.8	18.9	17.4	17.6	17.8
Headline inflation	*Dec, %*	3.5	3.2	1.3	1.0	2.5
Budget balance	*CY, % GDP*	-3.5	-3.2	-	-	-
Budget balance	*FY, % GDP*	-	-	-3.9*	-3.5	-3.1
Public sector debt (for the purpose of debt ceiling)	*Dec, % GDP*	53.0	53.4	55.7	55.3	54.6
Public sector debt (International definition)	*Dec, % GDP*	59.1	60.7	63.7	64.4	62.8
Balance of visible trade	*Rs bn*	-77.5	-77.3	-74.7	-81.5	-94.5
Current account balance	*% GDP*	-6.2	-5.6	-5.0	-4.5	-6.1
Overall balance of payments	*Rs bn*	+16.6	+23.0	+20.0	+20.4	+22.8
Unemployment rate	*average, %*	8.0	7.8	7.9	7.4	7.3

(1) Revised estimates (2) MCB revised forecasts

** The budget deficit for 2015 in the table relates to the January to June period as per official disclosures and based on computations from GDP for H1 2015*

Sources: Statistics Mauritius, Ministry of Finance & Economic Development, Bank of Mauritius & MCB staff estimates

Economic growth

In the wake of the afore-described conjuncture, economic growth is anticipated to gain further steam this year. Actually, pending the enunciations of the forthcoming National Budget, our latest real GDP growth forecast for 2017 is maintained at 4.0% when measured at market prices, assuming no further delays in the implementation of public sector ventures. Comparatively, when using GDP at basic prices – which does not make allowance for taxes on products net of subsidies – our projection is that growth would attain 3.9%. Broadly speaking, our baseline forecasts are in line with those formulated by the local authorities as well as the IMF. Our projections are unchanged given that upgrades in sectorial prospects at some levels – with a key example being a stronger-than-expected performance of the business and financial services industries on the back of headway made in terms of market diversification and sector deepening – are anticipated to be offset by (i) a downward revision in our already tepid outlook for the textile sector amidst the delicate external context; and (ii) a slightly lower-than-envisaged recovery in construction sector, reflecting some delays being observed in the initiation and full-fledged execution of specific large-scale ventures. Alongside taking into consideration the statistically lower base instigated by the marginally lower real GDP growth estimate for 2016

when compared to our earlier prognosis, the improvement in the country's economic performance for 2017 would benefit from an upturn in nationwide investment levels. Nonetheless, the ensuing impact on growth is likely to be restrained by (i) the execution lead times of the investment projects that can potentially generate major economic gains, with several key undertakings likely to be comprehensively put in train only as from the latter half of 2017 and onto 2018; and (ii) the foreseen high import content of earmarked ventures. That said, public investment would – after excluding marine vessels and aircraft – post a high expansion rate this year in line with our baseline assumption of a satisfactory implementation rate for infrastructure projects, albeit at a lower pace than assumed in the Public Sector Investment Programme (PSIP) and in our December forecasts. These notably relate to the Road Decongestion Programme, the Metro Express, port development as well as capacity upgrades in the energy, water and wastewater management fields. Additionally, the country's growth outcome would be uplifted by a prominent real expansion in private investment, which would, in turn, be mainly instigated by an estimated notable growth in the residential segment, backed by (i) the implementation of official measures aimed at further stimulating this segment, further supported by recent monetary policy action; and (ii) the execution of identified investment ventures by operators. In turn, higher investment levels should trigger a significant upturn in the construction sector after its lacklustre trajectory of recent years.

While the improving growth prospects for 2017 are encouraging *per se,* it is essential that we are not soothed into a false sense of comfort with respect to the inherent performance of the economy, the more so given the cumulative effect of several years of sub-par national output growth. As it stands, the underlying reflection is that the Mauritian economy continues to face up to inadequacies with regard to the resilience, quality and sustainability of its growth trajectory, even if a pre-eminent real GDP growth performance could potentially get underway in the years ahead in case (i) earmarked policies and infrastructure-upgrading measures are judiciously and extensively executed; and (ii) the global landscape witnesses a noteworthy improvement. For the time being, the following sections shed light on the nature and source of existing apprehensions by carefully dissecting the growth performance foreseen for this year.

Resilience of growth

Overall, our baseline growth outlook remains anchored on uncertain grounds given the exigent context and the country's sub-optimal idiosyncratic capabilities, which, in some ways, tend to impede the level and quality of its resistance to and recuperation from potential external shocks. Thus, the balance of risks to this year's growth projection remains slated to the downside, principally explained by the threat of longer delays in the implementation of infrastructure projects after factoring in recent trends, thus calling for vigilance insofar as specific developments have the ability to unsettle the growth momentum. In fact, our baseline macroeconomic projections might, as time unfolds and as deemed appropriate, be revised in light of changes influencing the local and international economic environment. Meanwhile, to cater for the dynamic conjuncture, alternative growth scenarii – which are in tune with those formulated in the preceding MCB Focus edition – have, backed by specific assumptions, been articulated for 2017.

Figure 2 Risks to our growth outlook

Scenario	Description and expected impact	Probability of occurrence	Indicative impact on baseline projected national investment ratio	Indicative impact on baseline real GDP growth forecast
Upside	Relative to the baseline scenario, the outlook for the external environment improves, notably in respect of our key export markets where higher growth is activated by decisive policy actions, thus fostering a better performance as regards our exports of goods and services	Low	Up to + 50 bp	Up to + 25 bp
	A higher-than-envisioned growth is achieved in respect of public sector investment, spurred by a higher execution rate as regards public infrastructure projects amidst an enhancement of the authorities' productive capabilities	Low		
	A more prominent upturn is witnessed in relation to private sector investment in the aftermath of measures adopted by the authorities to improve the business facilitation framework and increase the leveraging of Public-Private Partnerships for ongoing infrastructure projects	Low		
Baseline	The external environment remains uncertain and improves only gradually, in line with IMF's baseline growth scenario for the world economy	High	-	-
	Reform measures announced in the budget are initiated to support activity levels, but the impact is to be mainly felt in 2018 and beyond	Moderate		
	Public sector investment is underpinned by the initiation of large-scale ventures, with projects however to mainly materialise during the second half of the year and onto 2018, albeit at a slower pace than that envisoned in the Public Sector Investment Programme	High		
	An upturn in private sector investment is observed, notably supported by the residential segment, in particular related to tourism	High		
Downside	The outlook for the external environment worsens - attributable essentially to soft private demand in our key export markets, the changing global trade landscape and the increasing competitive pressures on markets for goods and services - with global real GDP growth declining from the baseline rate of 3.4% projected by the IMF and standing closer to 3%	Low to Moderate	Up to - 70 bp	Up to - 40 bp
	A lower-than-envisaged implementation rate of public undertakings is attained, reflecting protracted delays in the materialisation of contemplated ventures – particularly spanning road transport and energy – to some extent attributable to the inherent technical complexities of such undertakings	Moderate		
	Private sector investment evolves at a tempered pace, reflecting the restrained implementation of infrastructure-upgrading projects and a deterioration of the business climate amidst a slower-than-foreseen implementation of the reform agenda	Low to Moderate		

Source: MCB staff estimates

Quality of growth

As the situation stands, it can be asserted that the observed pickup in economic activities is yet to translate into a meaningful and durable boost to net job creation on the nationwide scale. In fact, whereas the unemployment rate is forecast to slightly decline to reach 7.3% in 2017, latest official statistics reveal that, notwithstanding dedicated policies put in place by the authorities in order to correct its imperfections and rigidities, the labour market remains engulfed in rather challenging territories. Revealingly, figures for the third quarter of 2016 show that total employment in the country fell slightly when compared to the corresponding period of the preceding year, while the unemployment base widened by 1,800. For its part, the national activity rate has worsened by 30 basis points to attain 59.5% during the period, with the female participation rate standing at an even more worrisome rate of 44.8%. These outcomes threaten to seriously impede the latitude to trace the route for high and sustainable economic progress, while also highlighting the need to further open up the country to foreign talents, notably in the high-skill segment. Basically, it can be echoed that prevailing adverse trends in net job creation and labour participation rates tend to expose the country to a relative deficiency of labour inputs and a lack of intellectual capital that would, otherwise, have boosted our national income by a prominent margin over time.

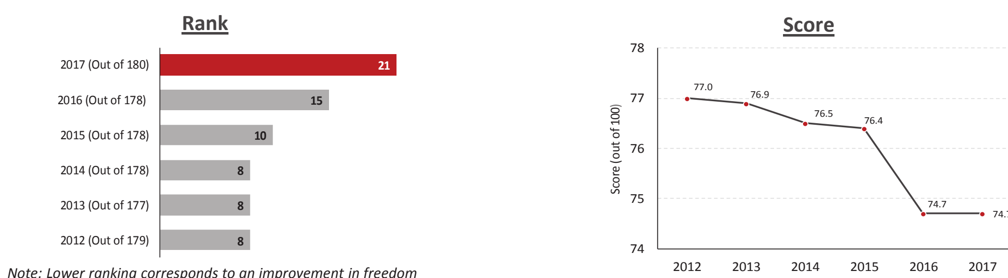
Sustainability of growth

In another light, apprehensions prevail as regards the intrinsic ability of the country to generate and harness conditions that are robust and flexible enough to achieve and entrench a high growth path over the medium to long term. To start with, some of the better-performing industries – especially financial and business services, ICT and tourism – are still subject to pressures on value added generation, even though they are still predicted to provide a noticeable boost to real GDP growth this year on the back of their expected appreciable growth, in accordance with their competitiveness breakthroughs. Besides, several established and emerging economic sectors continue to face up to a soft expansion rate. Notably, the domestic and export oriented manufacturing industries should, yet again, register delicate growth outcomes in 2017. In addition to being confronted by the testing global climate and the inherent limitations of the domestic economy, especially in terms of market size, the sub-par performance of specific economic segments are, as highlighted before, partly attributable to lingering domestic imbalances. The latter, which tend to adversely impact their productivity levels, can be viewed in a worrying light when considering the continuous advances being realised by several competitor nations across the world. In this respect, the recent findings of the 2017 Index of Economic Freedom of the Heritage Foundation make for insightful reading, with Mauritius losing grounds with reference to its rankings across segments. Furthermore, in spite of recovering from the recent years' lows, the forecasted investment levels for 2017 call for close investigation as regards the influence of capital spending in spearheading national output to greater heights over a sustained period of time. This is, particularly, the case when considering that (i) the predicted expansion rates in public and private spending would, in part, be

Box IV: Index of Economic Freedom – Positioning of Mauritius

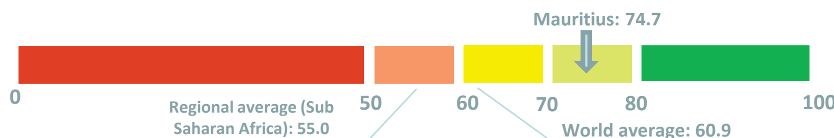
The Index of Economic Freedom, which is published by the Heritage Foundation, provides evidence of the wide-ranging tangible benefits of living in freer societies. Countries are graded and ranked on 12 measures of economic freedom that evaluate notably the rule of law, government size, regulatory efficiency, and the openness of markets. As highlighted in the report, *"Economies rated "free" or "mostly free" in the 2017 Index generate incomes that are more than double the average levels in other countries and more than five times higher than the incomes of people living in countries with "repressed" economies"*. In the 2017 report, despite retaining its leading position in the sub-Saharan African region, Mauritius remains on a declining path and now ranks at the 21st spot amongst the 180 countries under review, compared to 15th in 2016. Overall, the country has lost 13 spots since 2012.

Evolution of Mauritius' score and rank in the Index of Economic Freedom



Note: Lower ranking corresponds to an improvement in freedom

Spotlight on the country's performance in Index of Economic Freedom 2017



Score and rank of Mauritius by category

Source: 2017 Index of Economic Freedom, Heritage Foundation

statistically fuelled by a low base; (ii) the productive efficiency and commercial viability of some specific undertakings necessitate close scrutiny in light of evolving socio-economic dynamics and trends; and (iii) the actual and future multiplier impact of higher capital expenditure on local activity levels and job creation remain to be conclusively assessed. Besides, along with factoring in the relatively high level of complexity of specific ventures, the predicted growth in national investment for this year is believed to undershoot its potential level after making allowance for the impact of structural bottlenecks in delaying their initiation and implementation. From a more wide-ranging perspective, the national investment ratio would, when measured as a percentage of total output, edge up only slightly to reach 17.8% this year, thus staying far below the level advocated to gratifyingly enhance the country's competitiveness and growth pattern. Moreover, net exports of goods and services would, in view of the testing global trade landscape and difficulties facing our main trading partners, compounded by the prevalence of domestic hindrances, continue to exert a drag on the country's expansion rate, with the indicator's ratio to GDP anticipated to worsen this year. As expounded in a recent MCB Focus edition which advocated the need to re-boost exports amidst intensifying international trade winds, prevailing trends warrant inspection given the importance of trade as a pivotal engine for achieving high and balanced real GDP growth over the long run. In fact, the latter target would tend to remain an unfinished business if our export development agenda is not embedded as an influential axis of national economic orientations. This posture is called for when taking into consideration the relatively small size of our economy and market, which tends to constrain the leeway in stimulating continuous growth in domestic demand, the more so given that the net impact of household consumption on national output is limited by its relatively high import content.

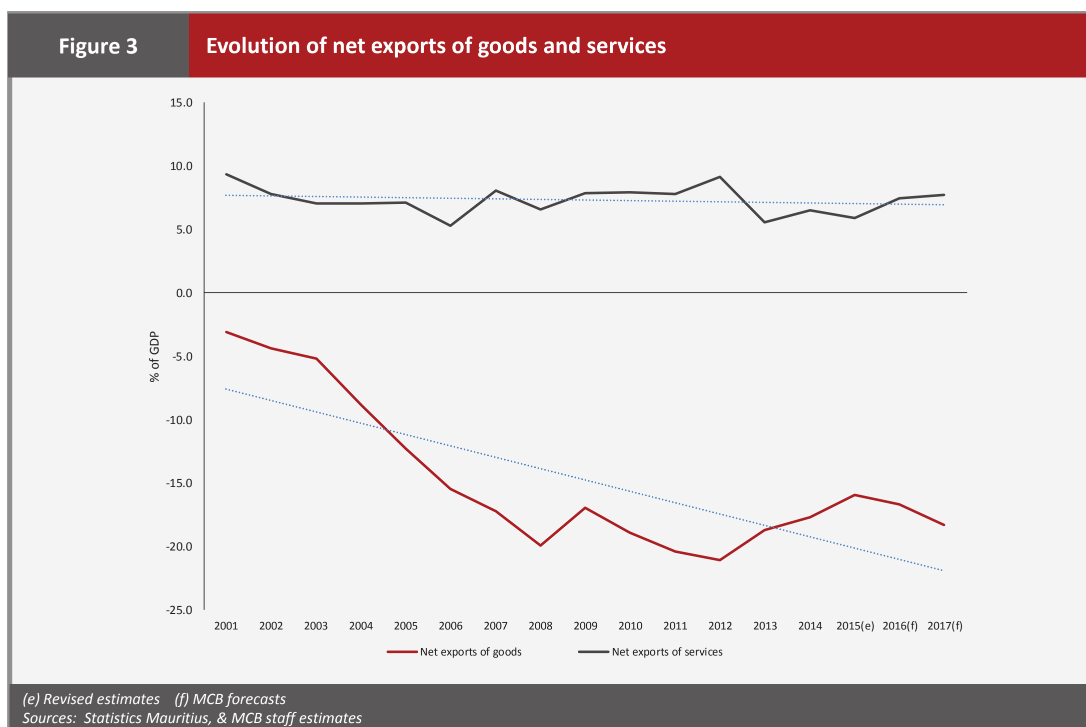


Figure 3 **Evolution of net exports of goods and services**

(e) Revised estimates (f) MCB forecasts
Sources: Statistics Mauritius, & MCB staff estimates

Other indicators

After oscillating around the 1% mark for some time, headline inflation is expected to pursue a progressive uptrend in the months ahead. Notably, in addition to being impacted by the recent increases in the prices of specific items such as gasolene and vegetables, the consumer price index would face up to additional pressures emanating from the projected further increase in the prices of commodities and a potential rise in administered prices, even though these developments are not likely to be of an overly high magnitude. Besides, any strengthening of the greenback on international markets in alignment with key economic events would also matter, although a relative weakening thereof has been observed lately. On balance and while discounting exceptional events, inflation should remain generally moderate at close to 2.5% as at December 2017, thus providing a conducive backdrop for the continued maintenance of an accommodative monetary policy stance by the authorities on the back of the challenging economic climate. Regarding public finances, the budget deficit is expected to stand at around 3.1% of GDP for the current fiscal year. This is slightly lower than the 3.3% figure projected in the official Medium Term Macroeconomic Framework, with under-spending on the capital side – partly attributable to the lead time confronting the execution of envisioned major infrastructure-enhancing project – offsetting lower-than-anticipated revenue collection, to some extent explained by a lower economic growth outcome than that formulated in the official macroeconomic projections of the authorities. While the fiscal balance is on a relatively favourable trend, due attention is, concomitantly, warranted as regards the primary balance (which excludes interest payments) to ensure that it moves into positive territories. For its part, in line with the Government's articulated commitment to foster sound fiscal metrics, public sector debt is likely to remain manageable looking ahead, though stresses could be exerted thereon in the event of a lower-than-foreseen expansion in economic activity levels and slippages on the expenditure side. On the external front, in spite of tailored measures adopted by the authorities to stimulate exports and headway made by operators in diversifying markets and enhancing the competitiveness of their value proposition, the sizeable imbalances would continue to warrant attention. In fact, reflecting the tepid conditions in our key trading partners, the challenging global trade platform and the volatile exchange rate environment, exports of goods are foreseen to post a lacklustre evolution. As a result, the balance of visible trade deficit is predicted to further worsen to some Rs 94.5 billion in 2017, i.e. over 20% of GDP, after factoring in the anticipated widening of the import bill amidst hikes in commodity prices as well as the sizeable import content associated with upcoming investment ventures. Thus, despite support projected to emanate from gross tourism receipts, this would lead to a deterioration of the current account deficit to 6.1% of GDP. That said, the balance of payments would remain in surplus in 2017, backed *inter alia* by the project-based disbursement of the first tranche of the grant received from the Government of India, the acquisition of major offshore management companies by foreigners as well as sustained elevated levels of financial flows.

CONCLUDING REMARKS

In spite of growth gradually gaining impetus, the Mauritian economy continues to be confronted by a particularly delicate operating context, amidst *'new normals'* taking centre-stage on the international front. It can, further, be observed that the country is, from an introspective view, deemed to be presently entwined into a transitory phase, namely one that prevails between the time when contemplated policy measures and economic restructuring decisions are conceptualised/designed and the period when comprehensively-implemented initiatives end up in persuasively bolstering national competitiveness levels and, in due course, generating socio-economic dividends. At this moment, as we look back at announcements made by the authorities to buttress growth and as challenges lying ahead are evoked, a trinity of essential questions beckons: (i) first, are the implementation processes and capabilities – both at public and private sector levels – deemed to be robust and adaptive enough so as to lead projects to conclusion in a speedy and judicious fashion?; (ii) second, can our domestic business environment and policy frameworks be flexible and malleable enough in order to bear up with a global trade and investment landscape that keeps on gyrating as well as spawning new realities and challenges?; and (iii) third, can our socio-economic progress be made all-encompassing enough so as to maximise the scope for persuasive job and wealth creation, thus generating and embedding a continuously regenerated cycle of high and sustainable economic growth?

With a view to putting our interrogations at bay and alongside ensuring that the currently-envisaged economic policies and infrastructure measures be rapidly put in train, it is hoped that the forthcoming National Budget will, in sync with the country's evolving socio-economic dynamics and aspirations, lay solid grounds that will underpin a further strengthening and deepening of the national reform agenda. In the current challenging global economic environment, the pronouncements forming part of the Budget will, in fact, be meaningful in shaping up the extent to which progress will be made in reinforcing the country's macroeconomic foundations and building the necessary resilience that will catapult the economy to a higher, sustained and more inclusive growth path. In this respect and beyond the extensive implementation of undertakings stemming from the Public Sector Investment Programme and announced public sector reforms, an all-encompassing and influential array of structural initiatives that will address our inherent productivity- and competitiveness-hindering shortcomings as well as buttress our intrinsic resilience to external shocks is called for in order to help increase the potential real GDP growth rate of Mauritius to above the 5% mark.

All in all, the realisation of our economic ambitions would hinge upon key success factors.

- Boldness: Formulating measures that enable the country to effectively compete in a demanding international landscape, with a key case in point relating to the adoption of a well-calibrated strategy to increase, in a sensible way, the country's openness to foreign talents and expertise, especially in the high-skilled segment. Moves adopted on this front would, notably, expand the pool of talent in the

labour market, thus shoring up the country's total factor productivity and delivering notable economic gains

- Efficiency: Endorsing initiatives, particularly sizeable infrastructure-upgrading ventures, that are thoughtfully, scientifically and sensibly designed and packaged – in terms of their specificities and technicalities, market potential and envisioned implementation timeframes – backed by robust institutional support, judicious cost-benefit analyses, with the intention being to foster the long-run financial and commercial viability of projects as well as make sure that their eventual socio-economic ramifications are optimised and widely shared across the population. In another vein, accelerating the digitalisation and automation of operations and processes at the national level can help to augment the productivity of economic policies
- Astuteness: Preserving the tenets of the country's competitive edge, with a prominent example relating to the upholding of the low, simple and predictable tax regime that, it can be recalled, played a decisive role in stimulating investment and boosting production levels on the nationwide scale over the past decades. This posture is all the more warranted given (i) international trends whereby major economies, including US and UK, are planning to materially reduce their personal and/or corporate tax rates; and (ii) the relatively low corporate rates being adopted by countries competing with us in specific sectors, notably Ireland
- Timeliness: Securing rapid reform execution via espousal of a wide set of enablers to foster the prompt initiation and implementation of undertakings. Key actions include: (i) fast-tracking project execution aptitudes at public and private sector levels, backed by institutional capacity development, effective resource mobilisation, and an increasing recourse to innovative techniques and processes; (ii) reinforcing the institutional and legal set-up to resolutely spearhead the development of Public Private Partnerships in respect of the management and financing of key capital projects; and (iii) fostering sound and regular sharing of information and technologies between private sector businesses and the Government
- Soundness: Anchoring economic strategies on the adoption of a credible medium-term fiscal consolidation agenda, to establish and maintain budgetary buffers that will assist in supporting the realisation of growth endeavours on a sustainable basis, while concomitantly helping to maintain the country's credibility vis-à-vis rating agencies and preserving the investment-grade status of its credit profile

Given the juncture at which the country currently finds itself, the collaboration of public and private sector stakeholders is viewed as imperative in order to transform Mauritius Inc. into a creative, flexible, knowledge-based and networked economy – a formidable challenge indeed, but yet, well within our reach!

J. Gilbert Gnany
Chief Strategy Officer

March 24, 2017

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